

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 AGR-05 /059 W

----- 115243

R 031702Z OCT 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 1629

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: EFIN, ECON, ECRP, CS

SUBJECT: COMMENTS FROM A KEY OFFICIAL ON COSTA
RICA'S BALANCE OF PAYMENTS SITUATION

GUATEMALA ALSO FOR ROCAP

REF: SAN JOSE 3933

1. SUMMARY. A KEY CENTRAL BANK OFFICIAL BELIEVES THAT COSTA RICA'S BALANCE OF PAYMENTS SITUATION IS MUCH IMPROVED. MEASURES DESIGNED TO REDUCE IMPORTS ARE SHOWING A GOOD EFFECT, AND RESERVE LEVELS HAVE IMPROVED (\$73 MILLION GROSS AND \$54 MILLION NET RESERVES AT END OF AUGUST). THE TRADE DEFICIT, ALTHOUGH EXPECTED TO BE LOWER THAN LAST YEAR'S AND TO BE WITHIN COSTA RICA'S POSSIBILITIES FOR FINANCING, WILL NEVERTHELESS BE SUBSTANTIAL AND SOME ADDITIONAL MEASURES MAY BE NECESSARY TO REDUCE IT TO A MORE MANAGEABLE SIZE NEXT YEAR. END SUMMARY

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2. THE EMBASSY IS CONTINUING TO SEEK DATA AND OPINIONS

FROM KNOWLEDGEABLE SOURCES TO FURTHER REFINE BALANCE OF PAYMENTS ESTIMATES REPORTED REFTEL. THIS MESSAGE REPORTS THE RESULTS OF A CONVERSATION IN DEPTH THAT EMBASSY ECONOMIC OFFICERS HELD SEPTEMBER 26 WITH THE HEAD OF THE MONETARY DEPARTMENT OF THE CENTRAL BANK, ROBERTO PICADO. THIS INFORMATION, TOGETHER WITH ADDITIONAL DATA FROM OTHER SOURCES, WILL BE TAKEN INTO ACCOUNT IN PREPARING A REVISED BALANCE OF PAYMENTS REPORT THAT THE EMBASSY EXPECTS TO SUBMIT IN THE NEAR FUTURE.

3. ROBERTO PICADO BELIEVES THAT IF MONTHLY IMPORT AVERAGES HOLD STEADY AT THE RATE INDICATED BY PRELIMINARY DATA FOR AUGUST, COSTA RICA'S TOTAL IMPORT BILL FOR THIS YEAR WILL BE ONLY \$720-730 MILLION, OR \$20-30 MILLION LESS THAN PREVIOUS CENTRAL BANK ESTIMATES. EXPORTS, HE THINKS, WILL RUN ABOUT \$480 MILLION WITH COFFEE ACCOUNTING FOR \$118 MILLION AND BANANAS FOR \$115 MILLION.

4. THE TRADE GAP FOR 1975, PICADO ESTIMATES, WILL BE \$240-250 MILLION, REPRESENTING A SMALLER DEFICIT THAN LAST YEAR'S \$275 MILLION. HOWEVER, PICADO CAUTIONED THAT IT IS STILL TOO EARLY TO BE CONFIDENT ABOUT ESTIMATES OF THE TRADE GAP AS TOTAL IMPORTS FOR THE YEAR, WHICH ARE NOW RUNNING BELOW LAST YEAR'S LEVELS, DESPITE PRICE INCREASES, COULD RISE MORE THAN EXPECTED.

5. EMBOFF INFORMED PICADO THAT EMBASSY IS FINDING IT VERY DIFFICULT TO MAKE AN ESTIMATE, IN WHICH WE WOULD HAVE CONFIDENCE, OF COSTA RICA'S CAPITAL ACCOUNT FOR 1975. ACCORDING TO PICADO, THE CENTRAL BANK ALSO DOES NOT HAVE SUFFICIENT DATA ON A CURRENT BASIS TO GET A GOOD PICTURE OF WHERE THE COUNTRY STANDS ON ITS CAPITAL TRANSACTIONS. LACKING GOOD DATA ON CAPITAL FLOWS, THE BANK MAINLY RELIES ON WATCHING ITS RESERVE LEVELS, AND KEEPING INTEREST RATES ON DEPOSITS ABOVE EURODOLLAR RATES.

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6. PICADO BELIEVES THAT COSTA RICA'S BALANCE OF PAYMENTS SITUATION IS UNDER CONTROL FOR THE MOMENT. THE GOVERNMENT IS NOT WORRIED ABOUT THE SIZE OF THIS YEAR'S DEFICIT AND BELIEVES THAT WITH THE CREDITS AVAILABLE IT SHOULD FINISH THE YEAR WITH ITS RESERVE POSITION ABOUT LIKE IT IS NOW -- NOT TOTALLY COMFORTABLE BUT BETTER THAN A YEAR AGO. THE AUGUST 31 RESERVE LEVEL -- \$73 MILLION GROSS RESERVES; \$54 MILLION NET RESERVES --

WAS WELL ABOVE THE \$64 MILLION GROSS AND \$36.5 MILLION NET HELD BY COSTA RICA AT THE END OF AUGUST 1974. PICADO EXPECTS THAT COSTA RICA WILL FINISH THE YEAR WITH ABOUT \$55 MILLION IN NET RESERVES, AS COMPARED TO LAST YEAR'S CLOSING AMOUNT OF \$38.3 MILLION.

7. COMMENTING ON AVAILABLE FINANCIAL RESOURCES, PICADO SAID THAT THE \$30 MILLION LOAN MADE AVAILABLE BY A CONSORTIUM OF BANKS HEADED BY THE FIRST NATIONAL CITY BANK HAS NOT YET BEEN DRAWN DOWN BUT WILL BE USED BEFORE THE END OF THE YEAR. THE \$10 MILLION CREDIT RECEIVED FROM VENEZUELA IN 1974, WHICH WAS ROLLED OVER AT THE END OF LAST YEAR, WILL BE REPAYED WHEN DUE AT THE END OF THIS YEAR. IT DOES NOT FIGURE IN THE BALANCE OF PAYMENTS AS IT IS A SHORT-TERM CREDIT (SIX MONTHS RENEWABLE).

8. EMBOFF ASKED PICADO WHY THERE CONTINUES TO BE TALK OF FURTHER BALANCE OF PAYMENTS MEASURES, GIVEN THE IMPROVED SITUATION HE HAS DESCRIBED. PICADO CONFIRMED THAT ADDITIONAL MEASURES TO STRENGTHEN THE BALANCE OF PAYMENTS ARE UNDER CONSIDERATION. HIS PERSONAL OPINION IS THAT SOME FURTHER ACTION SHOULD BE TAKEN SO THAT NEXT YEAR'S CURRENT ACCOUNT DEFICIT WILL NOT BE AS LARGE AS THIS YEAR'S. HE RECOGNIZES THAT EXPORT EXPANSION IS A SLOW PROCESS AND THAT THEREFORE ANY SIGNIFICANT MEASURES WOULD HAVE TO BE DIRECTED AT CONTROL OF IMPORTS. PRIOR DEPOSIT REQUIREMENTS ARE ONE POSSIBILITY. QUOTAS ARE ALSO POSSIBLE BUT PICADO HIMSELF OPPOSES THE QUOTA APPROACH, AND HE DID NOT INDICATE THAT HE SEES IMPOSITION OF QUOTAS AS LIKELY.

9. DEVALUATION IS A POSSIBILITY THAT PICADO DID NOT LIMITED OFFICIAL USE

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MENTION AND THAT EMBOFFS DID NOT QUESTION HIM ABOUT. THERE IS VERY LITTLE TALK OF POSSIBLE DEVALUATION IN SAN JOSE THESE DAYS (IN CONTRAST TT LAST FALL WHEN THERE WAS A GREAT DEAL). BUT IF THE GOVERNMENT SHOULD DECIDE THAT EITHER DEVALUATION OR A PARTIAL DEVALUATION (A RETURN TO MULTIPLE EXCHANGE RATES BY MAKING FOREIGN EXCHANGE FOR LUXURY IMPORTS MORE COSTLY) WOULD BE HELPFUL TO RESTORE ITS TRADE BALANCE TO EQUILIBRIUM OR TO PERMIT REDUCTION OF VERY HIGH CONSUMPTION TAXES, IT WOULD BE IN A BETTER POSITION TO TAKE SUCH A STEP THAN IT WOULD HAVE BEEN LAST FALL WHEN THE VERY HIGH RATE OF INFLATION THAT HAD OCCURRED OVER THE PRECEDING 12 MONTHS MADE IT VERY DIFFICULT TO CONTEMPLATE A MOVE THAT WOULD HAVE CAUSED A FURTHER SHARP RISE IN INTERNAL PRICES OF CONSUMER GOODS, MOST

OF WHICH ARE EITHER IMPORTED OR ASSEMBLED LOCALLY WITH
VERY HIGH IMPORT CONTENT.

10. IN ADDITION TO AN IMPROVED BALANCE OF PAYMENTS
SITUATION, PICADO BELIEVES THAT THE CENTRAL BANK HAS
MADE SOME PROGRESS IN SLOWING INFLATION. THE WHOLE-
SALE PRICE INDEX, WHICH SHOWED A 40 PERCENT INCREASE
IN 1974 IS EXPECTED TO SHOW A LESSER INCREASE OF
ABOUT 25 PERCENT FOR 1975. CREDIT EXPANSION WHICH
REACHED 45 PERCENT IN 1974 HAS BEEN HELD TO A LEVEL
IN 1975 THAT IS EXPECTED TO BE ABOUT 30 PERCENT BY
YEAR END. THIS IS A SIGNIFICANT IMPROVEMENT, BUT THE
BANK HAD HOPED TO HOLD CREDIT EXPANSION TO 27 PERCENT.
A SIGNIFICANT FACTOR IN HALTING RUNAWAY CREDIT EXPAN-
SION HAS BEEN IMPOSITION OF LIMITS BY THE CENTRAL
BANK ON REDISCOUNT FACILITIES AVAILABLE TO THE GOVERN-
MENT-OWNED COMMERCIAL BANKS.

11. IT SHOULD BE NOTED THAT PICADO'S BALANCE OF PAYMENTS
ESTIMATE DO NOT TAKE ACCOUNT OF THE SUBSEQUENTLY
ANNOUNCED 10 PERCENT INCREASE IN OIL PRICES, EXCELSIOR
STATES THAT THE INCREASE WILL ADD \$10 MILLION TO COSTA
RICA'S IMPORT BILL ON AN ANNUAL BASIS, WHICH INCLUDES
\$5 MILLION ADDITIONAL FOR PETROLEUM AND PRODUCTS
IMPORTS AND \$5 MILLION IN INCREASED PRICES OF
FERTILIZERS, PLASTICS AND OTHER PRODUCTS MADE FROM
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PETROLEUM DERIVATIVES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES, BALANCE OF PAYMENTS DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 03 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANJO04199
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750344-0856
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751083/aaaacvzb.tel
Line Count: 203
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 SAN JOSE 3933
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 08 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 SEP 2003 by BoyleJA>; APPROVED <17 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMENTS FROM A KEY OFFICIAL ON COSTA RICA'S BALANCE OF PAYMENTS SITUATION
TAGS: EFIN, ECON, ECRP, CS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006